

Before the Commerce Commission
of the State of Illinois

C III Communications Operations, LLC)
)
Application for a certificate of)
interexchange authority to operate as a)
facilities based carrier of)
telecommunications services)
throughout the State of Illinois)

OFFICIAL FILE
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Witness Larsen
Date 4/10/03 Reprints DR

TESTIMONY OF KIM LARSEN

Q1. Please state your name, address and occupation.

A1. My name is Kim Larsen and I am Secretary of C III Communications, LLC ("C III") and C III Communications Operations, LLC ("C III Ops"). In addition, I am Senior Vice President, General Counsel and Secretary of Corvis Corporation ("Corvis"). My business address is 7015 Albert Einstein Drive, Columbia, MD 21046-9400 and my telephone number is 443-259-4000.

Q2. What is the purpose of your testimony?

A2. The purpose of my testimony is to support the application of C III Ops for a certificate of interexchange authority to operate as a facilities based carrier of telecommunications services through the state of Illinois. This application was filed with the Illinois Commerce Commission ("Commission") on March 27, 2003.

Q3. Have you read and are familiar with this application?

A3. I am.

Q4. Is the information contained in the application true and correct at the time of filing?

A4. It was.

Q5. Is the information contained in the application true and correct at the present time?

A5. It is true and correct, as supplemented with the verified attachment filed with this Commission on April 9, 2003.

Q6. Please describe the authority that C III Ops is seeking.

A6. C III Ops is seeking a certificate of interexchange authority to operate as a facilities based carrier of telecommunications services through the state of Illinois.

Q7. Why is C III Ops seeking this approval?

A7. On February 22, 2003, Broadwing Communications Services Inc. ("Broadwing-CSI") agreed to sell to C III its entire broadband business, which includes interstate and intrastate long distance and private line services. As a result of this agreement, substantially all of the assets of Broadwing-CSI, including all of the assets and customers of its wholly owned subsidiary, Broadwing Telecommunications Inc. ("Broadwing-TI"), shall be transferred to C III Ops, a wholly-owned subsidiary of C III. C III Ops would continue to provide service to all of Broadwing-CSI's and Broadwing-TI's existing customers under the trade name "Broadwing." In addition, C III Ops would retain all of Broadwing-CSI's current employees. The authority for which C III Ops has applied is necessary to assume the business of Broadwing-CSI and Broadwing-TI. In addition, the authority for which C III Ops has applied is equal to the authority that Broadwing-CSI currently holds.

Q8. What will happen to the authority currently held by Broadwing-CSI and Broadwing-TI?

A8. It is my understanding that after the closing of the proposed transaction, Broadwing-CSI and Broadwing-TI will surrender their certificates to the Commission and cease providing services.

Q9. Does the proposed transaction with Broadwing-CSI require approval from the Illinois Commerce Commission?

A9. No, we do not believe that the proposed transaction requires Commission approval. We have, however, provided the Commission with a written notification of the proposed transaction. A copy of this notification, verified, has been submitted to the Commission to supplement the application at issue in this proceeding.

Q10. What services will C III Ops provide in the State of Illinois?

A10. C III Ops will provide interstate and intrastate long distance services, as well as private line services in the State of Illinois

Q11. Is C III Ops currently providing service anywhere?

A11. No, at this time C III Ops is not currently providing service. We are currently in the process of obtaining the necessary approvals prior to the closing of the proposed transaction with Broadwing-CSI. Approvals have already been granted in both Arkansas, on April 3, 2003, and in Rhode Island, on April 1, 2003.

Q12. Has C III Ops ever been denied a certificate of service, or had a certificate revoked or suspended, in any jurisdiction, including Illinois?

A12. No.

Q13. Have there been any complaints or judgment levied against C III Ops in any jurisdiction, including Illinois?

A13. No.

Q14. Has C III Ops provided telecommunications services in any jurisdiction under another name, including Illinois?

A14. No.

Q15. Who owns C III Ops?

A15. C III Ops is wholly owned by C III. In turn, C III is currently 99% owned by Corvis and 1% owned by Cequel III, LLC ("Cequel III"). As part of the proposed transaction the ownership percentages will change slightly with Corvis owning 89.852% of C III and Cequel III owning 8.129% of C III. In addition, Broadwing, Inc., the current parent of Broadwing-CSI and Broadwing-TI will receive a 2.019%, non-voting interest in C III.

Q16. Would you please describe Corvis and Cequel III.

A16. Corvis, a Delaware publicly-traded corporation, is the majority and controlling owner of C III. Corvis is a world leader in the provision of optical network solutions. From point-to-point links to all-optical networks to transoceanic systems, Corvis delivers innovative optical network solutions that drive carrier profitability faster than any other vendor. Headquartered in Columbia, Maryland, Corvis provides carriers with scalable optical

networking solutions and services that dramatically reduce the overall expenses associated with building and operating networks. Carriers deploying Corvis' optical network solutions can provision new wavelength-based services and tailor dynamic service-level agreements for rapid revenue generation. Cequel III is a privately held Delaware limited liability company that is a minority owner of C III. Cequel III's mission is to acquire or invest in, and subsequently manage, growth-oriented firms in the telecommunications and cable industries, focusing on those companies that offer platforms for future acquisitions and industry consolidation. In addition to Corvis' substantial management expertise with designing, implementing and supporting state of the art optic networks, Cequel III has a demonstrated track record with respect to managing telecommunications and related companies. Jerry Kent (President and CEO of Cequel III) and Howard Wood (Chairman of Cequel III), among other business ventures, founded Charter Communications and built it into the nation's fourth-largest cable operator. Under their leadership, Charter led the industry in standard performance metrics for five consecutive years.

Q17. Please describe the managerial qualifications of C III Ops.

A17. C III Ops would be run on a day-to-day basis by the core management team that would be transferred from Broadwing-CSI to C III Ops as part of the proposed transaction. The Broadwing-CSI management team has an excellent track record and was previously found by the Commission to be qualified to hold a certificate of authority. The proposed transaction would have no negative impact on any Broadwing-CSI and Broadwing-TI

services currently provided in the State of Illinois, but would instead allow the new company to benefit from the combined management and industry expertise of Broadwing-CSI and Broadwing-TI, as well as Corvis and Cequel III. Moreover, the new company, with its improved financial position, would be better positioned to attract additional management talent.

Q18. Which current managers of Broadwing-CSI will transfer to C III Ops?

A18. Most of the current managers of Broadwing-CSI will transfer to C III Ops. Exhibit 3 to the application filed by C III Ops contains the resumes of the officers, directors and managers of C III Ops, including the managers of Broadwing-CSI that will be transferring to C III Ops.

Q19. Please describe the financial qualifications of C III Ops.

A19. The financial qualifications of C III Ops is largely a matter of commission record because the Commission previously found Broadwing-CSI and Broadwing-TI financially qualified to provide services in Illinois and C III Ops is assuming the operating businesses of Broadwing-CSI and Broadwing-TI. Exhibit 5 to the application filed by C III Ops contains unaudited financial statements of Broadwing-CSI and Broadwing-TI for the past two years. While the companies have had significant operating losses over the last two years, the results from operations have been improving because Broadwing-CSI has previously taken the necessary steps to reduce operating expenses and capital expenditures. Furthermore, certain income statement and balance sheet items are not applicable to C III Ops. For example, C III Ops is not acquiring any of the existing debt

of Broadwing-CSI or Broadwing-TI. In addition the value of long term assets, including associated depreciation and amortization, as well as long term liabilities and shareholder's equity will be determined and allocated once the transaction is closed. Such valuations will be based on the purchase price of the assets and not the historical costs.

Q20. How would Corvis and Cequel III, the primary investors in C III Ops, enhance its financial qualifications.

A20. Corvis and Cequel III plan to invest substantial capital to purchase the assets of Broadwing-CSI and Broadwing-TI. The C III Ops investors negotiated the proposed transaction at arms-length. Combined, Corvis and Cequel III would pay approximately \$129 million in cash and have every incentive to ensure the financial success of C III Ops and a positive return on their investment. Towards that end, Corvis has committed to making a working capital infusion of up to \$50 million, as needed, but in any event not later than December 31, 2003. This would provide C III Ops with additional financial resources in case of any unforeseen operating deficits or to further expand services. It is anticipated that the capital infusion from Corvis will fund C III Ops until it operates at breakeven. Exhibit 5 to the application filed by C III Ops contains the most recent 10-Q filing of Corvis. This filing demonstrates that Corvis has the financial resources necessary to contribute the \$50 million in working capital and is otherwise qualified to be the controlling owner of a provider of competitive telecommunications services in Illinois.

Q21. How would you summarize the financial qualifications of C III Ops?

A21. In short, if the financial resources of Corvis were combined with the operations of Broadwing-CSI and Broadwing-TI, the financial qualifications of the resulting business would be greatly improved. C III Ops would be better positioned than Broadwing-CSI or Broadwing-TI to continue to provide and expand service offerings to their Illinois customers.

Q22. Please describe the technical qualifications of C III Ops.

A22. The proposed transaction with Broadwing-CSI would have no negative impact on C III Ops' technical ability to continue to operate, maintain and expand the existing service offerings of Broadwing-CSI and Broadwing-TI in the State of Illinois. All of the technical personnel, including the Chief Technology Officer, network engineers and field technicians employed by Broadwing-CSI would be transferred to C III Ops. Exhibit 3 to the application filed by C III Ops contains the resumes of those employees of Broadwing-CSI who would become employees of C III Ops.

Q23. How are the technical qualifications of C III Ops enhanced by Corvis?

A23. Corvis is a world leader in the design, manufacture and support of high-performance all-optical and electrical/optical communications systems. The network that would be transferred to C III Ops is primarily designed around Corvis equipment. All of the technical expertise of Corvis would be available to C III Ops. There is simply no better qualified company to support C III Ops' network.

Q24. Please describe how the grant to C III Ops of the requested Certificate of Service would be in the public interest.

A24. C III Communications Operations, LLC is seeking authority from the State of Illinois as part of a proposed transaction with Broadwing-CSI and Broadwing-TI. This proposed transaction would be seamless and transparent to Broadwing-TI's Illinois customers. As part of the Agreement, C III Ops would purchase the trade name "Broadwing," and would continue to provide service under that name. Customer invoices would continue to be issued in the same format in which they were issued prior to the transaction. The only change on the invoice would be that the "Broadwing Communications, LLC" would appear on the invoices in place of Broadwing-CSI and Broadwing-TI. The Broadwing logo would still appear on all invoices. Accordingly, the proposed transaction would not result in any change in the terms, conditions and price of service to Broadwing-CSI and Broadwing-TI customers that would be transferred to C III Ops. There would not be any changes in customer service personnel, telephone numbers, website addresses, account managers, etc. As a result, customers would continue to receive the best possible service and would continue to be able to contact their service provider in the same way they always have. In addition, the regulatory contacts for interfacing with Commission staff would remain the same. Furthermore, because the Petitioners are non-dominant carriers with less than two percent of the long distance market in the State of Illinois, the transaction would have little immediate impact on that market. The new company, C III Ops, however, would ultimately be a stronger competitor than the current companies

because of the enhanced financial and managerial resources contributed by Corvis and Cequel III. In addition, the transaction would not have any adverse impact on labor and employment issues in Illinois. Corvis and Cequel III would make a substantial investment by purchasing Broadwing-CSI's and Broadwing-TI's assets--thus demonstrating their commitment to ensuring the financial success of the to-be-acquired business. Accordingly, it is the hope of C III Ops that its employment in Illinois would increase with the success of the business. The proposed transaction is not expected to result in any employee layoffs.

Q25. As part of this application, is C III Ops seeking waiver from any of the Commission's rules?

A25. Yes. C III Ops is asking the Commission to waive the requirement that it keep its books within the state of Illinois.

Q26. Where are the books presently kept?

A26. The books are kept temporarily in the Corvis headquarters in Columbia, Maryland. Upon the close of the proposed transaction, C III Ops will acquire the current Broadwing headquarters in Austin, Texas. At that time, the books will be relocated to the headquarters in Austin, Texas.

Q27. Will C III Ops make its books available to the Commission upon request?

A27. Yes. C III Ops will make its books available to the Commission upon request and at the cost of C III Op. We will make the books available at either the location of the Commission or any other such location of the Commission's choosing. In addition, C III

Ops will, at its own costs, make its accountants and other employees available to the Commission to assist with the viewing of the books.

Q28. Is C III Ops seeking any other waivers from this Commission?

A28. Yes. C III Ops is seeking a waiver from Part 710 Uniform System of Accounts for Telecommunications Carriers of the Commission's rules and Part 735 Procedures Governing the Establishment of Credit, Billing, Deposits, Termination of Service and Issuance of Telephone Directories for Local Exchange Telecommunications Carriers in the State of Illinois. With respect to Part 710, C III Ops maintains its records in accordance with Generally Accepted Accounting Principals ("GAAP"). With respect to Part 735, as a competitive carrier, C III Ops would be constrained by market forces. As such, its policies regarding credit, billing, deposits and termination of service would be fair and equitable, otherwise, C III Ops would not be able to attract and retain a customer base.

Q29. Does this conclude your testimony?

A29. It does. I am happy to answer any questions that the Commission may have for me.